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January 12, 2009

Mr. Harry M. Snyder and Mr. Carl K. Oshiro
Cy Pres Fund Administrator
Vitamin Cases Consumer Settlement Fund
The Presidio
1009 General Kennedy Drive, 2nd Floor
San Francisco, California 94129

Re: Results of Review of Health Professions Education Foundation

Dear Mr. Snyder and Mr. Oshiro:

At your request, we have applied certain agreed upon procedures, as described below, to the grant from the Vitamin Cases Consumer Settlement Fund ("Grant") awarded to the Health Professions Education Foundation ("HPEF").

Procedures Employed

The procedures that we applied consisted of:

- I. Review the Grant Contract and amendments thereto to determine rules and restrictions of the grant, budgets, costs and other duties of HPEF.
- II. Review each Progress and Expenditure Report submitted by HPEF to ensure that the reports are consistent with the approved Project Budget, that the amounts in the reports are mathematically accurate and that the cumulative amounts on each report agree with the prior report.
- III. Review the supplementary material submitted by HPEF indicating how grant funds were expended and correcting past Progress and Expenditure Reports.

- IV. Review supporting documentation as provided by HPEF to reasonably ensure that the amounts charged to the Grant are correct, the number of grants and loans reported by HPEF as funded are correct and the amount of funds stated by HPEF as remaining on the Grant is correct.
- V. Issue agreed upon procedures report on findings.

Findings

Below is an explanation of the initial problem, how it happened, the corrective actions taken by HPEF, what we did, and the outcome of our work.

INITIAL PROBLEM: HPEF was reporting expenditures that were encumbered and not expensed and then they were not reconciling the reports.

HOW THIS HAPPENED: Applicants would apply to the HPEF for either Scholarships of up to \$10,000 or loan repayments of up to \$20,000. After the application review process was complete, the files would go to accounting and contracts for the money to be encumbered and for the contracts to be drafted. Once the signed contracts have been received from the applicant, the money is distributed. The program officers were preparing the semi-annual reports to Consumer Advocacy and they would include those contracts that were approved and sent to accounting and contracts as awarded. They would also include accruals for operating expenses as if they were paid. The problem arose because the program officers would not remove those encumbrances in the following report; however, they would include the actual amounts paid.

CORRECTIVE ACTIONS: HPEF now has in place a policy that all reports are prepared by the accounting department and be reconciled back to the actual contracts awarded.

WHAT WMSHB DID: Our role was to determine what happened, how the error was corrected and make sure that the new numbers are accurate and

complete. To do this, I first sat down with Lupe Alonzo-Diaz, Executive Director of HPEF and Karen Isenhower, Senior Program Officer. They walked me through the application and approval process for the applicants. They also walked me through the internal process of how the awards are approved and reported to Consumer Advocacy. I then reviewed all of the program files to determine if they included all of the documentation required and verified the award amount to a spreadsheet prepared by Karen Isenhower. I did this mainly to see if they have good controls over the contract files. I did not find any discrepancies in any of the contract files. I then sat down with Karen Miskenis, the Budget Officer and Natalie Esparza-Young, the Accounting Manager. They walked me through how the actual expenses differed from the reports to Consumer Advocacy and how the \$82,596.16 was arrived at. They provided me with internal reports that show actual expenditures and encumbrances by year for the Vitamin Case Settlement Grant. I was able to tie out each of the expenses on the spreadsheet that shows the total amount of money expended in this grants as \$917,403.84 which represents the total Grant of \$1,000,000 less the \$82,596.16. I was able to further tie out to the grant files that \$826,106 of the \$917,403.84 went out in the form of either scholarships or loan repayments to applicants.

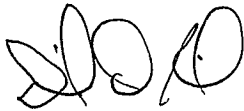
OUTCOME:

Due to the work performed that was listed above, it appears that the amounts listed in the \$917,403.84 are actual and accurate. The only possible issue with this is scholarships and loan repayments to applicants who are in default. According to the contract, this money is to be repaid to HPEF over seven years with interest. Ms. Alonzo-Diaz and Ms. Miskenis explained to me that if these funds are collected they are just added to the general fund and not back to future scholarships or loan repayments. They said that most of the time the funds are not able to be collected due

to many reasons and, if the money is collected, it is done in monthly payments of \$200 or less. It would be extremely difficult to try and add that money back to the scholarship and loan repayment pool. This seems reasonable to me.

Because the above procedures do not constitute an audit made in accordance with generally accepted auditing standards, we have not expressed an opinion on any of the items referred to above. If we performed additional procedures or if we performed an audit in accordance with generally accepted auditing standards, other matters might come to our attention that would be reported to you.

Very truly yours,

A handwritten signature in black ink, appearing to read 'D.D. Bailey', with a stylized, cursive-like script.

David D. Bailey, CPA